Cambridge International AS & A Level

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **February/March 2024**

MARK SCHEME

Maximum Mark: 90

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the February/March 2024 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptions for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
OF	Own figure
Highlight	Highlight
Off page Comment	Off page comment

Abbreviations and guidance

The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation.

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'.

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. **}***

row = all figures in the row must be correct for this mark to be awarded.

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

Question	Answer	Marks
1(a)	**Prepare the statement of profit or loss for the year ended 31 December 2023.**	**14**

V Limited
Statement of profit or loss for the year ended 31 December 2023

	$	
Revenue	997 100	
Cost of sales **W1**	(519 700)	**(3)**
Gross profit	477 400	**(1) OF**
Other income	10 300	**(1)**
Distribution costs **W2**	(148 180)	**(4)**
Administrative expenses **W3**	(187 020)	**(3)**
Profit from operations	152 500	
Finance costs **W4**	(7 400)	**(1)**
Profit before tax	145 100	
Tax	(27 900)	
Profit for the year	117 200	**(1) OF**

W1 Cost of sales

	$	$	
Opening inventory		47 800	}
Purchases	522 000		
Less returns	(5 100)		
Add carriage inwards	4 500		
		521 400	**(1)**
		569 200	
Less closing inventory		(49 500)	**}(1) both inventories**
		519 700	**(1) OF**

Question	Answer	Marks
1(a)	**W2** Distribution costs	

	$	
Distribution costs	30 700	
Distribution costs prepaid	(6 000)	**(1)**
Carriage outwards	8 700	**(1)both**
Wages sales staff	38 300	
Depreciation of furniture and equipment (20% × 956 000) × 40%	76 480	**(1)**
	148 180	**(1) OF**

W3 Administrative expenses

	$	
Administrative expenses TB	17 200	
Wages office staff ($49 300 + $5800)	55 100	**(1)**
Depreciation of furniture and equipment (20% × 956 000) × 60%	114 720	**(1)**
	187 020	**(1) OF**

W4 Finance costs

	$	
Bank loan interest	2 600	
Debenture interest (8% x $240 000 x ¼)	4 800	
	7 400	**(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

Complete the statement of changes in equity for the year ended 31 December 2023.

<table>
<tr><th></th><th>Share capital
$</th><th>Share premium
$</th><th>Revaluation reserve
$</th><th>Retained earnings
$</th><th>Total
$</th></tr>
<tr><td>Balances, 1 January 2023</td><td>750 000</td><td>165 000</td><td>60 000</td><td>174 000</td><td>1 149 000
(1) Row</td></tr>
<tr><td>Rights issue</td><td>250 000
(1)</td><td>50 000
(1)</td><td></td><td></td><td>300 000</td></tr>
<tr><td>Revaluation of property</td><td></td><td></td><td>(60 000)
(1)</td><td></td><td>(60 000)</td></tr>
<tr><td>Dividends paid</td><td></td><td></td><td></td><td>(37 500)
(1)</td><td>(37 500)</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td>117 200
(1) OF</td><td>117 200</td></tr>
<tr><td>Balances, 31 December 2023</td><td>1 000 000</td><td>215 000</td><td>–</td><td>253 700</td><td>1 468 700
(1)OF Row</td></tr>
</table>

</td><td>7</td></tr>
<tr><td>1(c)</td><td>

State <u>two</u> factors that directors should take into account when declaring a dividend.

Availability of sufficient cash **(1)**
The available balance of retained earnings **(1)**
Current year's profit **(1)**
Shareholders expectations **(1)**

Max 2

Accept other valid responses

</td><td>2</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td>

Advise the directors which option they should choose. Justify your choice by considering the effect on <u>both</u> profitability and liquidity.

<table>
<tr><td></td><td>Profitability</td><td>Liquidity</td></tr>
<tr><td rowspan="2">Option A</td><td rowspan="2">May worsen relationship with some suppliers resulting in less advantageous prices (1)</td><td>The delay in paying suppliers will improve cash flows (1)</td></tr>
<tr><td>Some suppliers may withdraw credit terms worsening cash flow position (1)</td></tr>
<tr><td rowspan="3">Option B</td><td>Will improve profitability as cost of sales reduced (1)</td><td>Will improve cash flows as cost of purchase reduced (1)</td></tr>
<tr><td>Possible reduction in quality (1)</td><td></td></tr>
<tr><td>Will supplier prove reliable (delivery times, etc.) resulting in delays and possible loss of customers (1)</td><td></td></tr>
</table>

Advice: either option supported by arguments **(1)**

Accept other valid responses

</td><td>7</td></tr>
</table>

Question	Answer	Marks
2(a)	**Prepare the journal entry to record the depreciation charge for the year ended 31 December 2022. A narrative is not required.**	3

Journal

Date	Account	Dr $	Cr $	
2022 Dec 31	Depreciation account/Statement of profit or loss **W**	7 080		**(2)**
	Provision for depreciation – vehicles		7 080	**(1) OF**

W Vehicle 1: 20% × $26 000 = $5200 **(1)**
Vehicle 2 (20% × $28 200 × 1/3) = $1880 **(1)**

Question	Answer	Marks
2(b)	**Prepare the provision for depreciation – vehicles account for the year ended 31 December 2022.**	3

Provision for depreciation-vehicles

Date	Details	$	Date	Details	$
2022 Dec 31	Balance c/d	12 280	2022 Jan 1	Balance b/d	5 200 **(1)**
			Dec 31	Depreciation / Statement of profit or loss	7080 **(1) OF**
		12 280			12 280
			2023 Jan1	Balance b/d	12 280 **(1) OF**

Question	Answer	Marks
2(c)	**Prepare the vehicle disposal account.**	4

Vehicle disposal

Date	Details	$	Date	Details	$
2023 Feb 15	Vehicles cost	26 000 **(1)**	2023 Feb 15	Provision for depreciation – vehicles	10 400 **(1)**
Dec 31	Statement of profit or loss	4 200 **(1)**		Bank	19 800 **(1) OF**
		30 200			30 200

Question	Answer	Marks
2(d)	**State <u>one</u> reason why it may be better to use the reducing balance method of depreciation for vehicles.** Annual charge more closely reflects the loss in value of the motor vehicle **(1)** **OR** The earning power of motor vehicles diminishes over time **(1)** **Accept other valid responses.**	**1**
2(e)	**Explain <u>two</u> accounting concepts which apply to depreciation.** Matching / Accruals concept **(1)** which ensures that the costs of the asset are matched with the benefits received in the same accounting period. **(1)** Consistency concept **(1)** which requires the same method of depreciation is used in each accounting period and for each class of asset. **(1)** Prudence concept **(1)** which ensures that profits are not overstated, or losses should be provided for as soon as they are recognised **(1)** **Max 4**	**4**

Question	Answer	Marks
3(a)	**Calculate the revenue for the year ended 31 January 2024.** Cost of sales = 9 × average inventory \$20 600 **(1)** = \$185 400 **(1)** Revenue = \$185 400 × 5/3 **(1)** = \$309 000 **(1) OF**	**4**
3(b)	**Calculate Rahul's cash drawings for the year ended 31 January 2024.** \$10 130 **(5) W** **W**	**5**

	$	
Cash sales	216 300	**(1) OF**
Cash sales banked	(191 100)	**(1)**
Wages paid	(14 080)	**(1)**
Increase in cash balance	(990)	**(1)**
Drawings (balancing figure)	10 130	**(1) OF**

Question	Answer	Marks
3(c)	**State two ways in which Rahul will benefit from the accountant's suggestions.** Access to more valid information about business **(1)** Possibility of improved decision making **(1)** Easier to provide details required by external organisations **(1)** Less expenditure on accountant's fees **(1)** Helps to identify errors **(1)** **Max 2** **Accept other valid responses**	**2**
3(d)	**Explain two possible reasons for not accepting the accountant's suggestions.** There will be additional costs **(1).** These costs could include the equipment and software programme/the cost of paying someone to maintain the accounting records/training costs for Rahul should he wish to use the accounting package **(1).** Rahul may feel he does not need any more detailed information about the business **(1)** and is satisfied with the how the business operates and the rewards he receives/does not have the time or skills to use an accounting software package **(1).** **Max 4** **Accept other valid responses**	**4**

Question	Answer	Marks
4(a)	**Prepare a statement to show the total selling price for the customer's order.**	**5**

	$	
Direct materials	4 320.00	
Direct labour		
Cutting department 250 × 1.2 × $11.5	3 450.00	**(1)both**
Finishing department 250 × 3.1 × $11.5	8 912.50	
Overheads		
Cutting department 250 × 2.2 × $3.62	1 991.00	**(1)**
Finishing department 250 × 3.1 × $2.34	1 813.50	**(1)**
Total cost	20 487.00	
Add profit 2/3 × cost	13 658.00	**(1) OF**
Total selling price	34 145.00	**(1) OF**

Alternative approach

	$	
Direct materials	17.28	
Direct labour		
Cutting department (1.2 × $11.50	13.80	**(1)both**
Finishing department (3.1 × $11.50)	35.65	
Overheads		
Cutting department (2.2 × $3.62)	7.96	**(1)**
Finishing department (3.1 × $2.34)	7.25	**(1)**
Total cost	81.94	
Add profit 2/3 × cost	54.63	**(1) OF**
Unit selling price	136.57	
Total selling price	3 4 142.50	**(1) OF**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Calculate the over absorption or under absorption of overheads for <u>each</u> production department for the year ended 31 December 2023.

Cutting department

24 300 – 22 900 = 1400 × $3.62 = $5068 (1) Over absorbed (1):

Finishing department

500 × $2.34 = $1170 (1) Under absorbed (1)</td><td>4</td></tr>
<tr><td>4(c)</td><td>Calculate both the <u>total</u> monthly contribution and the <u>total</u> monthly profit currently being made.

Contribution = $9 × 9920 = $89 280 (1)
Profit = $89 280 – $38 500 fixed costs = $50 780 (1) OF</td><td>2</td></tr>
<tr><td>4(d)(i)</td><td>Prepare monthly marginal costing statements for each option.

Option A

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Revenue: 13 920 × $39.90</td><td>555 408</td><td></td></tr>
<tr><td>Direct materials: 13 920 × $12</td><td>(167 040)</td><td rowspan="2">(1)both</td></tr>
<tr><td>Direct labour: normal working 12 400 × $18</td><td>(223 200)</td></tr>
<tr><td>Direct labour: overtime 1 520 × $22.50</td><td>(34 200)</td><td>(1)</td></tr>
<tr><td>Other variable costs 13 920 × ($3 + $0.25)</td><td>(45 240)</td><td>(1)</td></tr>
<tr><td>Contribution</td><td>85 728</td><td>(1) OF</td></tr>
<tr><td>Fixed costs: $38 500 – $8000</td><td>(30 500)</td><td>(1)</td></tr>
<tr><td>Profit per month</td><td>55 228</td><td>(1) OF</td></tr>
</table></td><td>6</td></tr>
</table>

Question	Answer	Marks
4(d)(ii)	**Prepare monthly marginal costing statements for each option.** **Option B** <table><tr><td></td><td>$</td><td></td></tr><tr><td>Revenue: 10 912 × $41</td><td>447 392</td><td></td></tr><tr><td>Direct materials: 10 912 × $12</td><td>(130 944)</td><td rowspan="2">**(1)both**</td></tr><tr><td>Other variable costs 10 912 × $3</td><td>(32 736)</td></tr><tr><td>Direct labour</td><td>(180 703)</td><td>**(1)**</td></tr><tr><td>Contribution</td><td>103 009</td><td>**(1) OF**</td></tr><tr><td>Fixed costs **W**</td><td>(43 250)</td><td>**(2)**</td></tr><tr><td>Profit per month</td><td>59 759</td><td>**(1) OF**</td></tr></table> **W** $38 500 +$3750 **(1)** + $1000 **(1)**	6
4(e)	**Advise the directors which option they should choose. Justify your advice by discussing <u>both</u> financial and non-financial factors.** **Option A** **For (max 1)** Increased profit on current levels **(1) OF** Greater reduction in selling price may increase demand **(1)** **Against (max 2)** Are staff prepared to work in overtime conditions? **(1)** Will cancelling the advertising campaign affect demand? **(1)** Are forecasts likely to be accurate? **(1)** **Option B** **For (max 1)** Is the most profitable option **(1) OF** **Against (max 2)** Can finance be obtained? **(1)** Will collateral be required for the loan? **(1)** Loan interest charges/depreciation will reduce profits **(1)** Will training be required for new machinery which would decrease profits? **(1)** Will installation of machinery cause a delay in production? **(1)** Are forecasts likely to be accurate? **(1)** **Advice:** supported by valid comments **(1)** **Accept other valid responses**	7

